

Private expenditure on pensions

Key Results

Payments from private pension schemes were worth 1.5% of gross domestic product (GDP) on average in 2019, representing about one-sixth of total – public and private – spending, and having increased from 0.7% of GDP in 1990 and 1.1% in 2005.

Private pensions are mandatory or achieve near-universal coverage through industrial relations agreements (“quasi-mandatory”) in less than one-third of the 38 OECD countries. In others, voluntary private pensions – either individual (“personal”) or employer-provided (“occupational”) – have broad coverage (see Table 4.2), implying that in total around half of OECD countries have significant private pensions.

Biggest flows of private-pension payments are in Canada, the Netherlands, Switzerland, the United Kingdom and the United States, between 5.3% and 5.6% of GDP in 2019 (Table 8.3). While Swiss occupational plans are compulsory, the data on private-pension payments include benefits from voluntary schemes above the statutory minimum level. The next three countries – Australia, Iceland and Sweden – record private-pension payments of between 2.9% and 4.5% of GDP. Japan (where private pensions are voluntary) also has high levels of expenditure on private pensions, at 2.6% of GDP.

Many countries introduced compulsory private pensions in the 1990s: Australia, Estonia, Mexico, Poland, the Slovak Republic and Sweden. In some cases – particularly in Central and Eastern Europe – these new schemes were mainly taken up by younger workers. Many of the schemes have yet to begin paying benefits and some countries have since reversed the decision with mandatory private schemes removed in Poland and now being voluntary in Estonia. Much of the private benefit pay-outs recorded in Australia and Sweden relate to voluntary and quasi-mandatory (respectively) schemes that were already in place before private pensions were made compulsory.

Total expenditure from both public and private pensions is highest in Italy at 17.0% of GDP, with Greece at 15.8% and both Austria and France at 13.7% of GDP in 2019. The average across countries is 9.2% of GDP with the lowest levels found in Mexico at 3.1% of GDP and in Chile, Ireland, Korea and New Zealand all being between 4% and 5% of GDP.

The importance of private pensions as a proportion of total spending varies considerably by country (Figure 8.1). Iceland is the highest at 61% of total expenditure with Canada, the Netherlands and the United Kingdom also over 50%, and Australia, Switzerland and the United States around 45%. Overall, the average is 21% of total spending, for the 28 countries with recorded spending for private pensions, with eight having a share below 5% with a further five being under 10%.

Trends

The countries that have recorded an increase in private pension spending larger than one percentage point of GDP between 2000 and 2019 are Canada, Iceland, Sweden, Switzerland and the United States (Figure 8.1). In some

cases, such as Switzerland, the occupational pension became compulsory in 1985, which extended coverage significantly. This is now being reflected in the rapid growth in private pension entitlements as each successive generation of retirees has contributed for longer, on average, to the private pension scheme.

The average proportion of private spending in total pension spending has been relatively stable over the last two decades, from 22% for 2000 to 23% in 2019, for the 26 countries that have both public and private spending in both years. However, there has been significant change in some countries. In Chile, for example the proportion doubled from 18% in 2000 to 37% in 2019, with increases of +8 or 9 percentage points also found in Australia, Iceland and Sweden. Conversely, the proportion halved from 47% to 24% in Ireland and fell by 10 percentage points in Japan and Korea.

Tax breaks

Many OECD countries offer favourable tax treatment to retirement savings made through private pension plans. Often, individual contributions are fully or partially deductible from income and investment returns are fully or partially relieved from tax. Some countries offer tax relief on pension payments (see “Tax treatment of pensions and pensioners” in Chapter 4).

The cost of these fiscal incentives is measured in many OECD countries using the concept of “tax expenditures”, developed in the 1960s. This attempts to quantify the value of the preferential tax treatment relative to a benchmark tax treatment. The idea is that this is the amount of revenue forgone as a result of the tax incentives.

Data on tax expenditures for retirement savings are available for 2019 in 25 OECD countries. Just under half of these figures are 0.2% of GDP or less. And in only six countries – Australia, Canada, Germany, Israel, the Netherlands and Switzerland – are reported tax expenditures worth 1% of GDP or more.

Tax expenditure figures come with important caveats: they are not comparable between countries because of differences in the benchmark tax system chosen. Despite their name, they are not equivalent to direct expenditures and so should not be added to numbers for public pension spending.

Further reading

OECD (2018), *Financial Incentives and Retirement Savings*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264306929-en>.

OECD (2010), *Tax Expenditures in OECD Countries*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264076907-en>.

Table 8.3. Private pension-benefit expenditures

	Scheme type	Level (% of GDP)							Change of level 2000-19	Public and private benefit spending (% of GDP) 2019	Tax breaks (% of GDP) 2019
		1990	2000	2005	2010	2015	2019	2020/21			
Australia	m		2.9	1.9	3.4	4.7	3.6		0.8	7.9	1.9
Austria	v	0.4	0.6	0.5	0.6	0.7	0.7		0.2	13.7	0.0
Belgium	v	1.0	1.3	1.5	1.1	1.1	1.0		-0.3	11.7	0.1
Canada	v	2.5	3.9	4.1	3.7	4.6	5.4	5.8	1.6	10.5	2.2
Chile	m	0.3	1.1	1.2	1.3	1.4	1.7	1.6	0.6	4.5	0.1
Colombia	m				0.4	0.4	0.6	0.6		6.3	
Costa Rica	m					0.2	0.3			5.3	
Czechia	m		0.2	0.2	0.4	0.3	0.3		0.1	8.2	0.0
Denmark	q/m				1.7	2.2	2.0		2.0	10.5	
	v	1.6	2.4	2.5	1.2	0.8	0.4		-2.0		
Estonia										6.6	
Finland	v	0.1	0.3	0.2	0.2	0.2	0.2		-0.1	12.1	0.0
France	v	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.0	13.7	0.1
Germany	v	0.7	0.6	0.7	0.7	0.7	0.7		0.1	11.1	1.1
Greece	v	0.3	0.0	0.1	0.1	0.1	0.1		0.1	15.8	
Hungary										7.6	0.1
Iceland	m	1.4	2.3	2.7	3.2	3.9	4.5		2.2	7.3	
Ireland	v	0.9	2.8	1.5	1.8	1.2	1.0		-1.7	4.4	0.4
Israel	v		0.7	1.4	1.3	1.3	1.3	1.3	0.5	5.9	1.2
Italy	v	1.1	1.1	1.1	1.3	1.2	1.1		0.0	17.0	0.1
Japan	m	0.2	0.4	0.4	0.6	0.5	0.3		-0.1	12.0	
	v		2.8	2.1	2.6	2.2	2.3		-0.5		
Korea	m	0.2	0.5	0.3	0.4	0.7	0.8	1.0	0.2	4.1	
Latvia										6.8	0.1
Lithuania										6.4	0.0
Luxembourg										8.7	
Mexico										3.1	0.3
Netherlands	q	3.6	4.5	4.8	5.5	5.8	5.3		0.8	10.3	1.8
New Zealand										4.9	
Norway	v/m	0.6	0.6	0.6	0.6	1.0	1.1		0.5	8.1	0.3
Poland										10.9	
Portugal	v	0.3	0.2	0.3	0.2	0.7	0.4		0.2	12.8	0.0
Slovak Republic	v		0.2	0.4	0.3	0.4	0.3		0.1	7.4	0.0
Slovenia										10.0	0.6
Spain	v				0.5	0.5	0.4			11.7	
Sweden	q/m	1.1	1.7	1.9	2.5	3.1	2.9		1.3	9.9	
Switzerland	m	2.2	3.9	4.3	4.5	4.9	5.3		1.4	11.7	1.2
Türkiye										7.5	0.0
United Kingdom	m	0.1	0.4	0.5	0.6	0.7	0.6	0.6	0.2	10.5	0.9
	v	4.0	5.4	4.3	4.2	4.2	5.0	5.1	-0.5		
United States	v	2.6	3.7	3.6	4.4	5.2	5.6	6.1	1.9	12.7	0.9
OECD		0.7	1.2	1.1	1.3	1.4	1.5	0.6	0.3	9.2	0.5

Note: m = mandatory private scheme, q = quasi mandatory; and v = voluntary. Blank cells indicate missing values.

Source: OECD Social Expenditures Database (SOCX); OECD Main Economic Indicators Database. See Adema, W. and M. Ladaïque (2009), "How Expensive is the Welfare State?: Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", <https://doi.org/10.1787/220615515052> for more details on the data, sources and methodology.


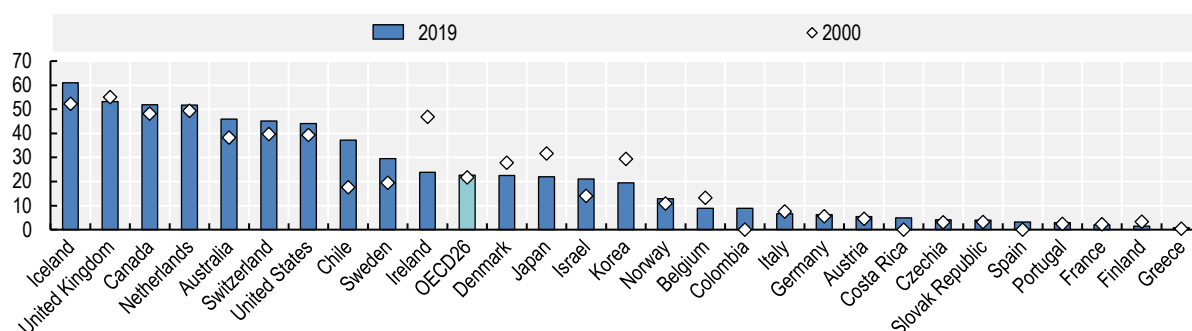
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Figure 8.1. Private expenditure as a percentage of public and private



Note: Data for 2000 is not available for Colombia and Costa Rica.

Source: OECD Social Expenditures Database (SOCX); OECD Main Economic Indicators Database. See Adema, W. and M. Ladaïque (2009), "How Expensive is the Welfare State?: Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", <https://doi.org/10.1787/220615515052> for more details on the data, sources and methodology.

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From:
Pensions at a Glance 2023
OECD and G20 Indicators

Access the complete publication at:
<https://doi.org/10.1787/678055dd-en>

Please cite this chapter as:

OECD (2023), "Private expenditure on pensions", in *Pensions at a Glance 2023: OECD and G20 Indicators*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/2f597b3c-en>

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